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TAGS: ECON ETRD LI

SUBJECT: LIBERIA: AGOA COUNTRY ELIGIBILITY RECOMMENDATIONS 2008

REF: STATE 132189

**I**1. Following is the text of Embassy Monrovia's AGOA recommendations.  
The text has also been e-mailed to AF/EPS and USTR.

Country: LIBERIA

Current AGOA Status: Eligible

Country Background Summary: Liberia has a government that was democratically elected in multi-party elections in October/November 2005. The elections were held after United Nation Mission in Liberia (UNMIL) disarmed and demobilized over 100,000 combatants. The government has moved to exert its authority throughout the country by appointing county superintendents, judges and other officers but security still depends on the 14,000-strong UNMIL deployment. The first 600 soldiers in the new Armed Forces of Liberia have completed initial training and 3,500 new Liberian National Police have been trained. Economic activities are coming alive throughout the country with the return of refugees and internally displaced persons to towns and cities across the country, as well as an increase in investment, both foreign and domestic.

The IMF estimates that the economy grew by 9.7% in 2006 and growth is expected to continue in 2007. The inflation rate in 2006 was 7.2%. The GOL budget for the Liberian 2007-2008 fiscal year (ending June 30, 2008) reflects a 38% increase in projected revenue over the previous year, for a total budget of nearly US\$200 million. Despite Liberia's rich natural resources and potential for self-sufficiency in food production, the country's productive capacity remains depressed by high unemployment, low literacy, corruption, and the absence of basic infrastructure. Only about 15% of the workforce is employed in the formal sector. Illiteracy is estimated to be over 50%. Sustained economic growth is also hindered by the inadequate roads, water, sewage and electrical services.

The government has outlined a reform and anti-poverty agenda and is exerting efforts to revitalize the economy. The GOL continues to support the Governance and Economic Management Assistance Program (GEMAP) and a Staff Monitored Program which was agreed to with the International Monetary Fund (IMF). The Interim Poverty Reduction Strategy, initiated in October 2006, is scheduled to evolve into a full Poverty Reduction Strategy in July 2008.

Comments on Eligibility Requirements

**I**I. Market-Based Economy

**I**A. Major Strengths Identified

--Liberia has historically been very open to foreign investment. Registering a business in Liberia is relatively simple. Liberia appeared in the IFC's "Doing Business" index for the first time in September 2007 (ranked 170 of 178 countries).

--Reform of the budget process continues. The government submitted

the budget to the legislature in a timely manner in 2007 and, for the first time, published detailed copies of the final budget presentation. The Ministry of Finance (MOF) has slashed processing time for vouchers and other payments and used the Cash Management Committee to restore better control of expenditures.

--The government has moved to increase transparency and accountability in procurement and concessions. Several contracts for investment in iron ore mining, rubber and oil exploration have been reviewed and revised to be more equitable.

--GEMAP experts are working with the Ministry of Finance to streamline the revenue and expenditure process and close loopholes. The budgeting, allotment and disbursement processes have been improved. MOF is evaluating bids to take over the pre-shipment inspection of imports and exports to further improve customs activities at ports of entry. Progress in minimizing revenue leakage continues and revenue collection increased 38% over the previous year.

--A U.S. Treasury Advisor is working with MOF on the implementation of the GOL's US\$900 million Domestic Debt Resolution Strategy. Payments of validated claims of approximately US\$300 million are already being processed for vendors and include debts incurred by previous governments.

--The civil service has been trimmed by nearly 5,000 positions (many of them "ghost" employees) in the past year, and the minimum salary of civil servants increased 67%, to US\$50 a month.

--Liberia signed an Open Skies agreement and a Trade and Investment Framework Agreement with the United States in February 2007.

--The first export of Liberian diamonds under a Kimberly Process

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certificate took place in September 2007. The Liberia Electricity Corporation (LEC), with a grant provided by the U.S. Trade and Development Agency to the Liberian Ministry of Lands, Mines and Energy, has tendered for a feasibility study to examine the technical and economic viability of the reconstruction and expansion of the Mount Coffee Hydro Power Station in Liberia, which was destroyed during the civil war.

--The Liberia Extractive Industries Transparency Initiative (LEITI) was established on May 7, 2007, by the Government of Liberia. The membership of the steering group includes the GOL, civil society groups, private sector, and development partners. The LEITI should provide clear and independently verified information on how natural resource rights are allocated and what extractive industry companies are paying the GOL.

--With USG support of US\$1.64 million, the GOL is establishing a "Chain of Custody" system to ensure traceability of logs and guarantee that the GOL collects appropriate fees for timber harvested.

--The Central Bank of Liberia issued the first non-bank financial institution license in September 2007, permitting OPIC to make a US\$20 million commitment for loans to Liberian small and medium enterprises.

--The Cabinet is considering revisions to the Investment Code that would eliminate the 26 sectors of the economy reserved for Liberian investors since the 1980s.

--Liberia has enacted laws on intellectual and industrial property and copyright, and there is indigenous support for protection of intellectual property rights in the press and by organizations of IP producers.

#### 1B. Major Problems/Issues Identified

--Liberia's economy continues to struggle with the devastation of years of conflict. The economy is less competitive because of the high cost of operating in Liberia owing to the need for private security services and the lack of basic infrastructure such as the

road networks, electricity, and water/sewage systems needed to spur economic growth. The costs of rebuilding the damaged infrastructure are enormous. The economy is heavily dependent on the infusion of funds made available by international donors, the presence of UNMIL (the second largest UN force in the world), and International NGOs. Foreign assistance still exceeds the national budget.

--Ongoing economic reforms are beginning to pinch entrenched interests, possibly leading to stronger resistance to further reform.

--The continued dominance of the import and wholesale/retail economy by Lebanese and Asian businesspeople continues to breed resentment. The Ministry of Commerce favors policies protecting Liberian ownership of some sectors of the economy. The monopoly on importation of rice, long controlled by non-Liberians, has been broken, though in a less than transparent manner. A Liberian-owned company received a six month monopoly from September 2006 to February 2007. The rice market was opened following protest from several quarters.

--Although the laws reserving 26 specifically designated types of businesses for Liberians (the Liberianization policy) are being reconsidered, there are "margins of preference" accorded Liberian-owned firms for government contracts and there will likely still be protected "carve-outs" for Liberians. Laws preventing foreign ownership of land and acquisition of citizenship remain on the books. These laws have discouraged long-term investment by foreign-owned/operated businesses. Modernization in the sectors reserved for Liberians has been hampered by lack of capital and technical expertise. Liberian nationality laws restrict citizenship to those of Negro descent. Some elements within the GOL, both in the legislative and executive branches, continue to support expansion of the power and reach of the Liberianization policy.

--Despite having enacted laws on intellectual and industrial property and copyright, the government has failed to enforce these laws. There is wide-spread sale of pirated CDs, counterfeit drugs, and knock-off electronic products.

--Persistent corruption and a culture of patronage inhibit open and transparent concession and procurement processes. The Public Procurement and Concessions Commission, created in 2006, has yet to develop the capacity and political will to offset fully these influences. Efforts to reform the procurement process at government ministries and agencies have slowed government expenditure and continue to falter due to lack of institutional capacity.

## II. Rule of Law/Political Pluralism/Anti-Corruption

### IA. Major Strengths Identified

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--Liberia has a democratically-elected government resulting from free and fair elections in 2005. There were two successful legislative by-elections in 2007, with a third scheduled in December.

--Both the legislative and judicial branches have demonstrated they are independent institutions.

--The legislature holds open sessions and voting results are made public, but many issues are still decided only in closed "executive" sessions.

--Political parties operate openly and without restriction, and participate fully in the political process.

--UNMIL continues to provide stability. Security sector reform is progressing well. The Liberian National Police (LNP) and Special Security Service (SSS) have been trained and reorganized. Over 600 members of the new Armed Forces of Liberia (AFL) have been trained.

--The government is collaborating with UNMIL, the U.S. Justice Department and other stakeholders in rule of law reform.

--The President remains committed to the corruption-fighting Governance and Economic Management Assistance Program (GEMAP). Liberia has ratified the UN and African Union conventions on corruption.

--The independent press is flourishing with multiple newspapers and radio stations. The press, NGOs and opposition parties have freely criticized the current government with minimal harassment.

--There has been improvement in health, security and administration in the corrections system.

#### **1B. Major Problems/Issues Identified**

--UNMIL does not ordinarily intervene in quelling criminal activity. (Note: UNMIL's mandate does not include executive policing authority. End note.)

The LNP's capacity and motivation to deal effectively with crime is inadequate. The 3,500 police force is insufficient to cope with demand for officers across the country.

--Lack of confidence in the police and judicial system has sometimes resulted in mob violence and vigilantism. The shortage of police officers has placed a strain on the limited resources of the LNP. Members of the LNP and the judiciary have at times refused assignments to rural counties because of inadequate infrastructure and living conditions and difficulty receiving pay on a regular and timely basis.

--Despite improvements, the judiciary and penal systems function poorly throughout most of the country. Corruption and uneven quality of judges remain problems. There continue to be allegations of judicial officials overstepping their authority.

--The National Elections Commission is reliant on funding from foreign sources. It might be unable to satisfy constitutional requirements for the holding of municipal, district and chieftaincy elections because of the lack of funds. (Note: The President, citing the high cost of elections, proposed that she be permitted to appoint municipal and chieftaincy officials. Opposition parties in the legislature contested the idea, and President Sirleaf recently announced that elections for the local officials will be held, in two stages, in 2008. End note.)

--Despite the civil service salary increases, the commitment to fight corruption is undermined by the low and irregular salaries and the low rate of formal employment (which increases the dependency ratio, placing an additional burden on each employed person).

--Former soldiers (who served under previous governments) have held demonstrations to express dissatisfaction with the government's handling of salary arrears.

--The GOL, although responsive to foreign partners' calls for transparency and accountability in government, continues to struggle with building and maintaining the political will needed to root out systemic corruption.

--Anti-corruption legislation, including asset-freeze provisions targeting those on the UN sanctions list, was rejected by the legislature in September 2007 on constitutional grounds. However, the President has since reiterated her government's commitment to enforce UN Security Counsel sanctions, including the asset freeze directed against loyalists of the former president.

--Although several officials have been dismissed for corruption, they have yet to be prosecuted.

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--Low levels of capacity and professionalism in the press have undermined press effectiveness. Journalists are poorly paid and revert to gift-taking, which weakens their objectivity. It is common practice to pay to have stories published.

--The jurisdiction and mandate of the security forces have not been clearly defined and turf battles arise. (One example was the struggle for jurisdiction between the LNP and the Liberian Seaport

police.) The eventual role of the new Armed Forces of Liberia is yet to be fully defined.

### III. Poverty Reduction

#### IA. Major Strengths Identified

--Under the Interim Poverty Reduction Strategy, budgetary expenditure for health increased by 28% in FY2006-07, and for education by 44%. The President's budget message notes a 39% increase in spending on ministries and agencies involved in poverty reduction.

--The GOL plans to launch a full Poverty Reduction Strategy in July 2008.

--Support by international partners remains strong, with foreign assistance of US\$236 million in 2005. (note: 2006 figures are not yet available. End note.) Political stability continues to provide a foundation for economic growth.

--The removal of UN sanctions on timber and diamonds allows for some resumption of legal exports in 2007. Resumption of activity in these sectors would provide both employment and some GOL revenue.

--Investment in the iron ore sector, which has been dormant for the last twenty years, is expected to add much-needed employment outside Monrovia.

--Improvements in basic infrastructure, including farm-to-market roads, should spur agricultural production and increase rural incomes. The Ministry of Agriculture has been instrumental in trying to rebuild the agricultural capacity by providing tools and seeds.

--Donor-supported projects have been initiated to revitalize the tree crop sector, especially smallholder cocoa, oil palm and rubber production.

#### IB. Major Problems/Issues Identified

--Poverty remains pervasive. Basic services, including roads and access to electricity and safe water, are not available to most of the population.

--The high level of illiteracy reduces employment options.

--Widespread destruction of productive sectors of the economy undermines implementation of a robust Poverty Reduction Strategy. From a pre-war (circa 1980) national budget in excess of US\$500 million, the government operates with a Liberian FY2007-08 budget of US\$199 million, limiting its inability to spend adequately on key sectors like health, education and housing.

### IV. Workers' Rights/Child Labor/Human Rights

#### IA. Major Strengths Identified

--The Liberian Constitution prohibits slavery and forced labor, debt bondage or peonage.

--In 2002, Liberia ratified ILO Convention 182 on the Worst Forms of Child Labor.

--In 2005, Liberia passed anti-rape and anti-trafficking in persons legislation. More attention has been focused on dealing firmly with rape offenders.

--Liberia has repealed People's Redemption Council's Decree number 12, which prohibited strikes and other workers' actions.

--The Truth and Reconciliation Commission has established a structure to begin taking statements.

--Refugees and internally displaced persons are returning to their places of origin. All IDP camps have been closed.

--The UNMIL Civilian Police are a significant stabilizing and watchdog force for human rights, as well as a force to assist and train the Liberian National Police.

--The labor code was revised in September 2007 to limit firing of employees without cause ("Section 1508").

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--The government has declared that primary education will be free and that all children should attend school.

**IB. Major Problems/Issues Identified**

--Although Liberia ratified the ILO Convention on Child Labor, it lacks the capacity to fully enforce labor laws.

--Union power is generally weak and the law does not prohibit anti-union discrimination.

--Violence and discrimination against women, especially rape and female genital mutilation (FGM), remain problems.

--Slow judicial reform means there are still barriers limiting access to a fair trial. Prisoners are routinely denied due process and languish in prison longer than is stipulated by law.

--In outlying areas, due process is undermined by the lack of trained judicial officers.

--Costs relating to education (books and uniforms) remain prohibitive for many children.

**IV. International Terrorists/U.S. National Security**

**IA. Major Strengths Identified**

--Liberia is not a sponsor of international terrorism. Liberia generally supports U.S. foreign policy interests and has strong ties to the United States. The National Legislature on September 11, 2006 passed a joint resolution offering Liberia's land, air space and territorial waters, as well as any other assets which lie within its domain in its fight against global terrorism.

--The GOL has publicly announced its willingness to host AFRICOM.

**IB. Major Problems/Issues Identified**

--The government lacks effective control over its territory and borders. Weak law enforcement provides opportunities for diamond smuggling and money laundering (and cause loss of revenue from fishing and other activities).

--In September 2007 the legislature rejected the anti-corruption legislation that included asset-freeze provisions.

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